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## **FORMATION OF THE ECONOMIC SECURITY OF THE REAL SECTOR OF THE ECONOMY ON THE PRINCIPLES OF COMPLIANCE**

**Abstract.** *The article is devoted to the adaptation of the theory and practice of compliance function to the conditions of the real sector of the economy in order to ensure economic security. Based on the analysis of the current state of the Ukrainian economy, the presence of a corruption component in it is revealed, using which cases of fraud, money laundering, corporate ethics violations, etc. are carried out. Scientific and methodological proposals were developed for using the compliance function in the practice of the real sector of the Ukrainian economy. Today, compliance is an important element of the corporate governance system of the organization as a whole, begins in top management and is broadcast at all levels of business. It was proposed to introduce into scientific use a new term “compliance security”, which is supposed to be used when determining the level of economic security of enterprises and organizations. It is proved that the new term requires the creation of a methodically methodological base for determining the integral index, which would determine the level of compliance threats in an industrial enterprise. Methodical provisions for determining the integral indicator of the efficiency of the compliance program (compliance safety) at an industrial enterprise are proposed. It has been proven that this methodology can be used to a certain extent to assess the activity of an industrial enterprise in countering compliance threats. It is substantiated that compliance security of an enterprise can be considered as one of the*

*components of a broader concept - economic security. An algorithm for the practical use of the compliance function in the practice of industrial enterprises is proposed.*

**Keywords:** *compliance, economic security, compliance security, integral indicator*

Introduction. In recent years, the international scientific community has been actively discussing the possibilities of the compliance function. It defines the standards for doing business around the world, directly influences the stability of the global economy as a whole, and the business of a particular company in particular. Compliance (English Compliance - consent, compliance; comes from the verb to comply - to perform) - translated from English means an action in accordance with the request or instructions; humility, compliance (engl. compliance is an action in accordance with a request or command, obedience). Compliance is the compliance of specific actions of an enterprise (organization) as a whole, a separate team or employee of any rank with any internal or external requirements (laws, standards, norms, regulations, etc.). It should be noted once again that ensuring control, transparency and observance of legality in the company's activity is the key to its own security. At the same time, the economic and information security services now being created in large numbers, as well as the integrated security services for business structures and anti-corruption measures, are just a superstructure. The foundation for ensuring the security of a business should be the properly built corporate management of the enterprise, it contains an integrated system of internal compliance control and management of compliance risk in the economic security system of the enterprise.

Over the past few years, the frequency of investigations into violations in the area of compliance, the size of the consequences and the size of sanctions for a business, whose activities were found to comply with various compliance standards, have increased significantly and become a significant risk that any manager should be aware of and production, commercial, client or legal analysis of the national or international activities of an industrial enterprise. Therefore, the development and implementation of compliance functions in the practice of the

real economy is extremely relevant and important for industrial enterprises of Ukraine.

Purpose of the article. The purpose of this study is to create in an industrial enterprise existing mechanisms for identifying and analyzing particularly corrupt dangerous areas of activity, assessing and managing risks when confronted with corruption, providing comprehensive protection from the threat of crisis, violation of exclusive rights, and corporate ethics.

Analysis of the achievements and literature. The review of the theoretical and practical principles of the interaction of internal audit with the compliance system at industrial enterprises indicates the urgent relevance of a more detailed study of this problem by domestic researchers. A number of scientists in their work address issues of the compliance program and the work of the internal audit service, not only in financial institutions, but also in industrial enterprises. Theoretical and practical issues of the compliance function of industrial enterprises were considered in detail in their research and development by M.M.Aloshin, E.I.Aloshina, O.S. Bogma, M.O.Zitar, P.G.Pererva, T.V.Romanchik , O.V.Skoruk, O.Sosnovska, L.M.Hudolii, D.Kotsiski, M.Veres Shomoshi, M. Sikorski and others [1-18]. In their scientific developments, the basic terminological concepts of the compliance system are reproduced, the main areas of its use are substantiated, and factors of the effectiveness of the compliance program at industrial enterprises and financial organizations are identified. Based on a study of existing primary sources, it can be concluded that domestic and foreign scientists are paying quite a lot of attention to developing methodological approaches to ensuring compliance security of the country as a whole and industrial enterprises in particular, but a common opinion on this matter in the scientific community is still No, that suggests the need for further research. At the same time, there are practically no methodological approaches to determining the effectiveness of the compliance program, recommendations on the formation of an integral indicator of the efficiency of use of the compliance function in industrial enterprises. His further research urgently requires the formation and evaluation of the effective use of the

organizational mechanism of the compliance service, the development of effective mechanisms for evaluating the results of compliance programs, and on this basis the development of recommendations for its improvement.

The results of the study. In the system of ensuring the national security of any country, economic security is the basis of its sustainable, crisis-free socio-economic development. Defining the essence of the term "economic security" can proceed from a variety of approaches. First, economic security can be defined as the ability of the country's economy as a whole and its regions separately to ensure stable development and corresponding to the economic interests of individuals, economic entities, regions and the country. Secondly, the economic security of the country can be viewed from the standpoint of ensuring the protection of the vital interests of all residents of the country, society and the state in the economic sphere from internal and external threats (Fig. 1).

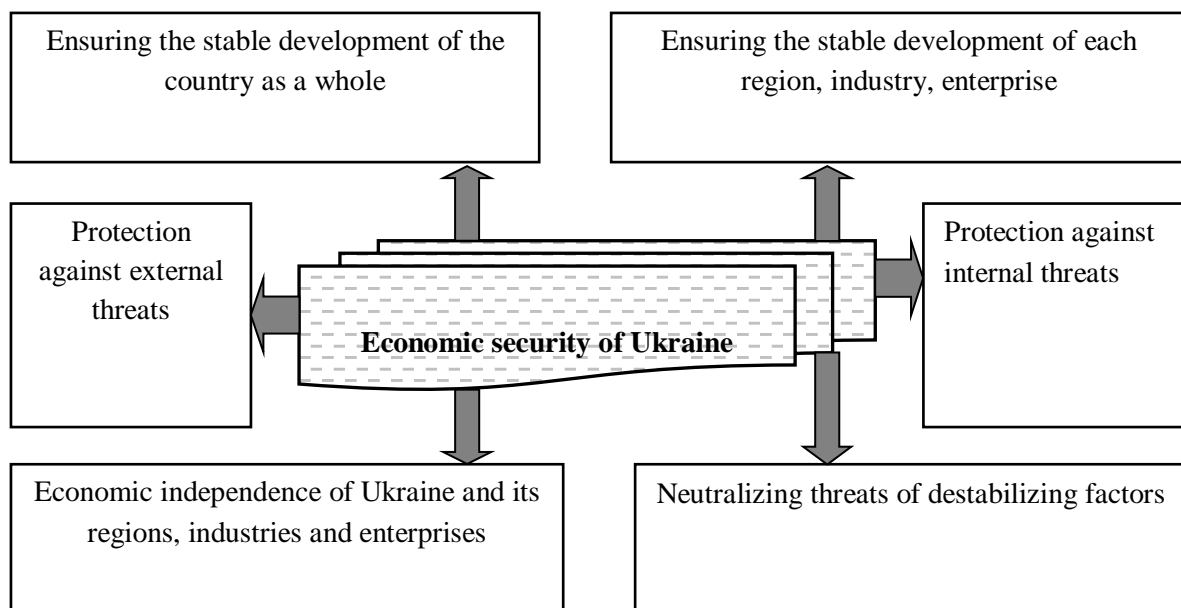


Figure 1 - The main components of the economic security of Ukraine

Source: authoring

To determine the level of economic security of Ukraine as the main component of the national security of the state, the integral index of economic

security is used. The dynamics of this indicator since 2005, calculated in accordance with the Methodological Recommendations for calculating the level of economic security of Ukraine, approved by Order of the Ministry of Economic Development and Trade of Ukraine No. 1277 of October 29, 2013, [5], presented by us in Fig.2.

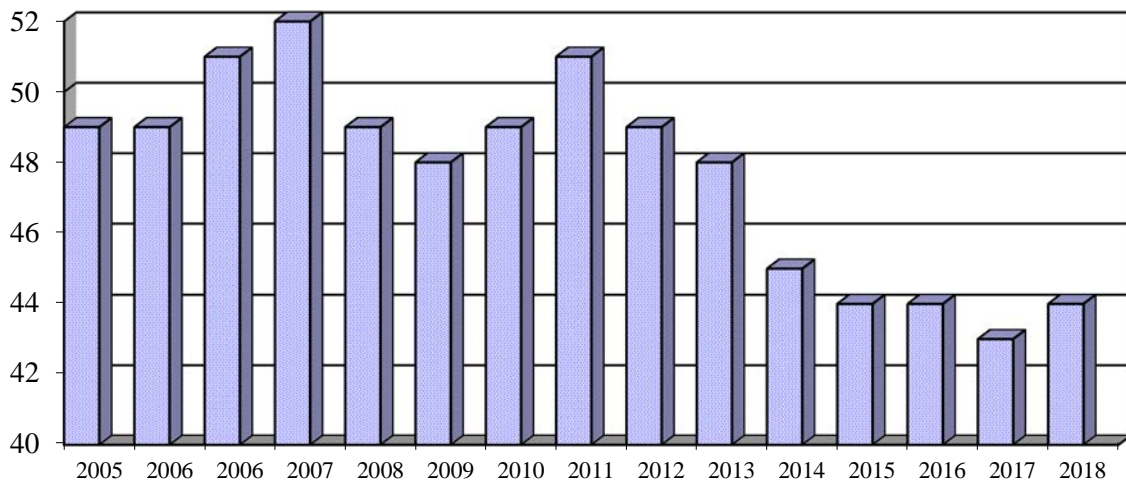


Figure 2 - Dynamics of the integral indicator of the economic security of Ukraine

Source: built by the author according to [5]

Over the past years, the Ukrainian economy has been practically in crisis, the overwhelming majority of the most important economic indicators have a steady downward trend, which indicates an increase in macro and microeconomic threats and an unsatisfactory level of economic security index. Therefore, it can be concluded that in the sphere of ensuring the economic security of our country, there are many important problems, as evidenced by the low level of the integral indicator of economic security (Fig. 2).

The data presented in Figure 2 indicate that in 2007. There was a steady increase in the level of economic security up to 52% (maximum value). In 2008-2009 There was a decrease in the economic security index to 48% and an increase of 3% during 2010-2011. In 2012, compared to 2011, the index level decreased by 3%. This situation has arisen, in our opinion, due to a decrease in economic growth rates, a shortage of investment resources, insufficient credit activity and an

unsatisfactory foreign economic situation. The scientifically grounded optimal level of the economic security index is 100%, therefore, the current values of the Ukrainian index are more than two times less than the optimal one.

Unsatisfactory trends can also be observed when analyzing the level of economic security of our country by security components (Table 1).

Table 1 - Dynamics of economic security indicator of Ukraine and its enterprises by sub-index components

Components of economic security	Year of observation							
	2011	2012	2013	2014	2015	2016	2017	2018
energy	32%	34%	39%	45%	47%	49%	51%	52%
financial	48%	46%	50%	36%	44%	43%	41%	48%
production	57%	53%	53%	52%	54%	53%	57%	56%
macroeconomic	47%	38%	40%	33%	37%	34%	42%	44%
Investment Innovation	36%	37%	35%	30%	32%	35%	33%	35%
Social	59%	62%	64%	57%	56%	63%	59%	61%
Food	92%	93%	86%	94%	92%	89%	91%	93%
demographic	52%	45%	46%	46%	45%	44%	43%	43%
Foreign trade	35%	30%	32%	35%	34%	33%	36%	34%
Economic security of Ukraine as a whole	50%	48%	49%	45%	44%	44%	43%	44%

Source: according to the Ministry of Economic Development [5]

Data analysis table.1 provides for the establishment of an estimated distribution of the levels of economic security of the enterprise and its components. The study of scientific and methodological proposals on this subject, presented in the scientific works of various authors and in the recommendations of the Ministry of Economy of the country [2, 3, 4, 6, 7], allows using the following distribution of economic security levels of an industrial enterprise,%:

- 0-19% - the interval of the critical level of economic security;
- 20-39% - the interval of the dangerous level of economic security;
- 40-59% - interval of unsatisfactory level of economic security;

- 60-79% - the interval of a satisfactory level of economic security;
- 80-100% - the interval of the optimal level of economic security.

The specified interval values in this case are not sufficiently economically justified, but their practical use allows for a certain degree of substantiated analysis of both the current and retrospective state of economic security at different levels of its assessment.

Based on these recommendations, we can state that almost none of the components of economic security is within the critical state interval (the worst situation). But in general, the situation is quite dangerous, since the innovation-investment and foreign-economic components correspond to the interval of the dangerous state of security. In our opinion, these components have a close relationship with each other, as well as the level of renewal of production, and its financing have a high level of dependence on the positive perception of the Ukrainian economy by the international community.

The fact that most of the components of the economic security of Ukrainian enterprises (energy, financial, industrial, macroeconomic, demographic) are characterized by an unsatisfactory level of economic security does not cause positive emotions. From the dynamics in the estimated values of the components of economic security given in Table 1, it can be seen that their maximum deterioration occurred in 2014, when destabilization of the foreign exchange and monetary market was observed in our country, significantly affected the build-up of financial instability.

At the same time, it should be noted that the presence of a tendency, though not essential, but clearly present, of a definite improvement in performance indicators over the overwhelming majority of the economic security components of industrial enterprises in recent years, causes some optimism about this.

The methodological essence of the economic security of an industrial enterprise naturally follows from the definitions and characteristics of the current state of the country's economic security as a whole and of industrial enterprises in particular. An analysis of current studies of economic security in the works of

various authors [6, 9, 11] suggests The topic of the research is very important and relevant both at the global, international (mega level), national (macro level), regional, sectoral (mezouro Shade), as well as at the enterprise level (roriven ma). This implies the importance and necessity of forming a hierarchical decomposition structure of economic security (Fig. 3).

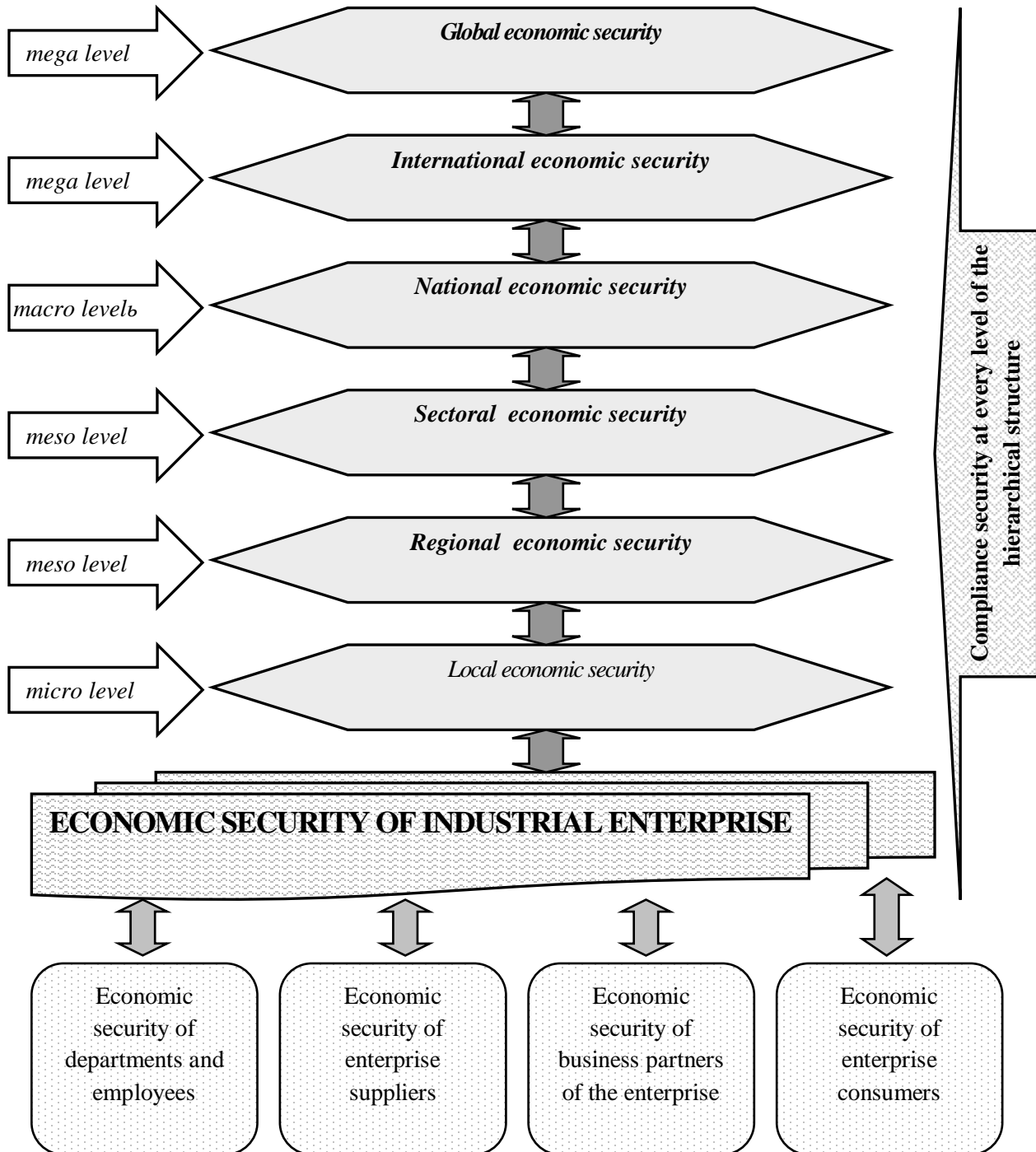


Figure 3 - The hierarchical decomposition structure of the economic security of an industrial enterprise

Source: authoring



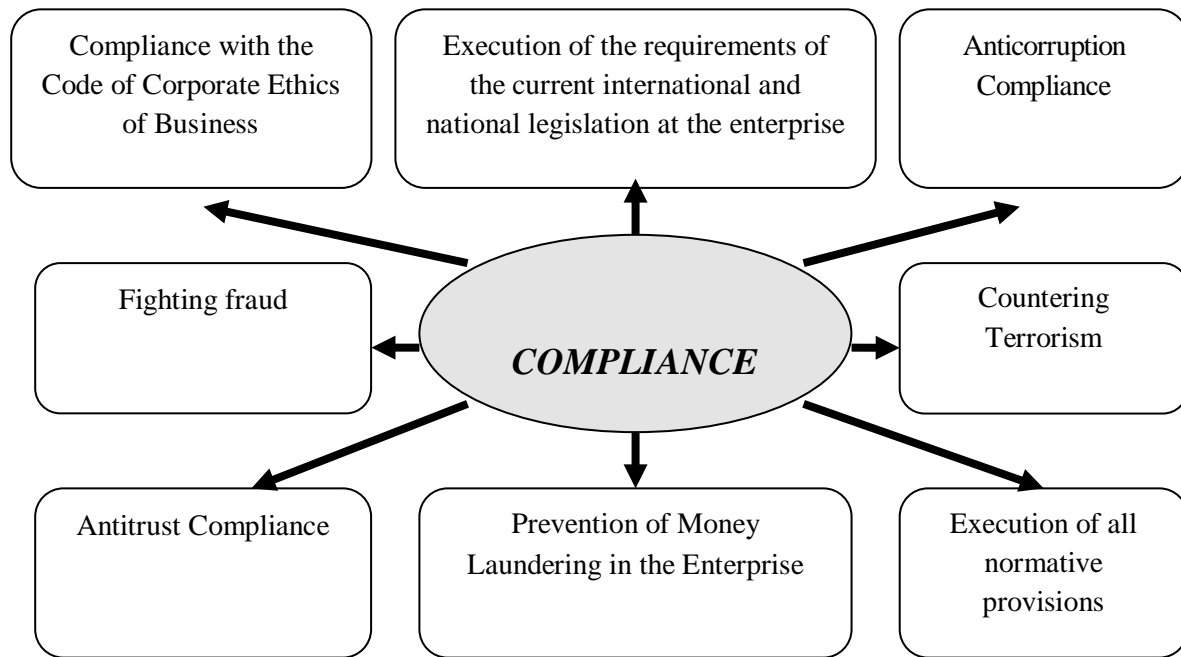
The conducted studies allow us to draw another important conclusion. Virtually none of the components of economic security at the country level or at the level of an industrial enterprise at the present time takes into account phenomena that are extremely dangerous for each business entity, such as corruption, fraud, money laundering, raiding, tax manipulation, antitrust violation, legislation, abuse of officials and senior officials of industrial enterprises, criminal actions of criminal groups in the establishment and implementation of governmental and entrepreneurial activity, etc. At this time there is a need to account for, evaluate and eliminate all these negative manifestations.

The term “compliance” in Ukraine is enshrined at the legislative level in the Resolution of the Board of the National Bank of Ukraine dated December 29, 2014 No. 867 “Regulation on the organization of internal control in banks of Ukraine”. According to this document, compliance is the organization’s compliance with laws, market standards, as well as the organization’s standards and internal documents [7]. To achieve the main goal, it is necessary to create a system of measures that provide business with the conditions for strict compliance with legal requirements. Such a system of measures provides for the mandatory compliance of all aspects of economic activity with ethical norms (codes of conduct), anti-corruption laws, rules and instructions. And ultimately, with the help of the compliance program, the necessary conditions are created for building a sustainable (successful and long-term) business.

Based on these assumptions, the term compliance should be used to denote the continuous efforts of an organization (enterprises, institutions) to comply with all national and international laws, standards and regulations applicable to its activities, including its own internal corporate policies and procedures.

The practice of using compliance in various spheres of economic activity shows that the main thing in this concept is to ensure unconditional compliance with the requirements of the current legislation, the current norms and regulations (Fig. 4).

Today, the term “economic security of an enterprise” is quite common in scientific research. According to L.M. Hudoley, “the system of economic security of an enterprise is a complex concept consisting of subjects, objects, and the mechanism for implementing security in an enterprise” [12].



*Figure 4 - The economic essence of compliance*

*Source:* authoring

Usually, the mechanism of ensuring the economic security of each enterprise is formed individually, its components and controls depend on many factors, among which, most often, researchers identify the most important components, the list of which is shown in Fig.5.

These components (Fig. 5) are usually taken into account when determining the integral indicator of the economic security of an enterprise. But far from always, when it is formed, indicators of corruption, fraud, money laundering, violation of corporate ethics, antitrust, tax laws, etc. are taken into account. In the past 20 ... 25 years in the global economy, all this is the subject of compliance research. Based on these references, we propose to introduce into economic terminology the definition of “compliance security of an enterprise”. The new term

requires its theoretical and methodological substantiation and definition as an economic category.

The essence of the term “compliance security” comes from the definition of both the term “compliance” and the concept of “economic security”. Therefore, it is proposed to define the concept of compliance security of an industrial enterprise as *the protection of vital interests of an industrial enterprise from external and internal violations of laws, regulations, standards, constituent and internal documents of an enterprise by determining, assessing and minimizing (eliminating) compliancej risks.*

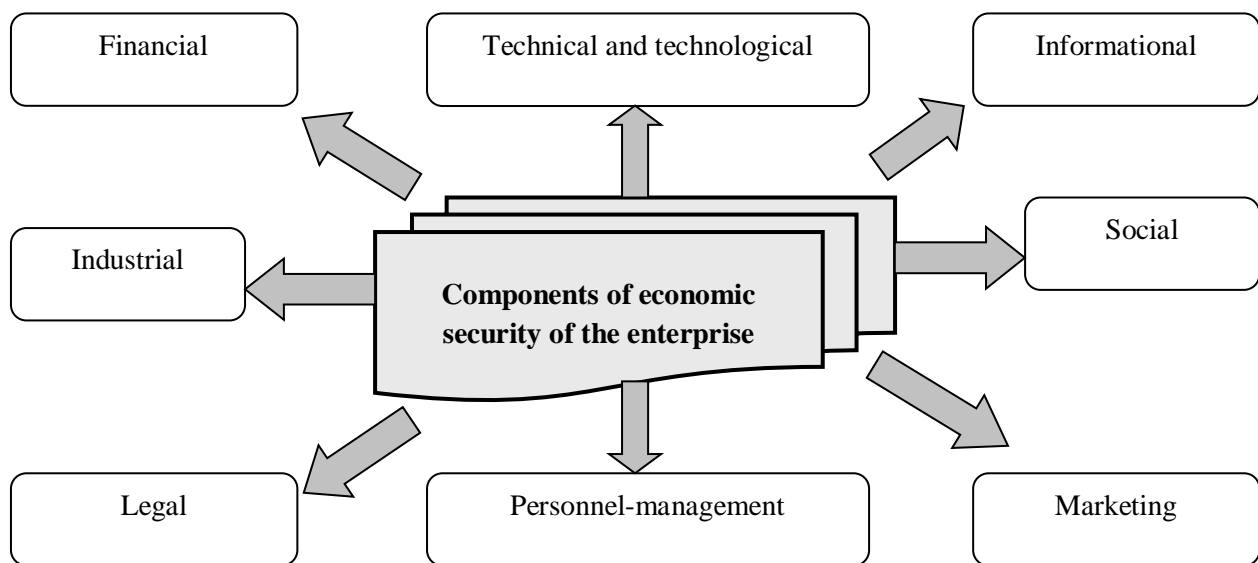


Figure 5 - Components of the economic security of an industrial enterprise

Source: authoring

Such a definition allows, firstly, to show the dynamic compliance of safety in space and time; secondly, to determine the importance of both internal and external factors influencing the size of safety compliance; thirdly, to show close interaction on the legal basis of the state and corporate systems of ensuring economic security; fourthly, to determine the presence and level of compliance risks as the main instrument for compliance safety of an industrial enterprise.

The study of the methodological essence of compliance security involves the definition of functions, policies and principles of this area of economic work in an

industrial enterprise. The functions, principles and policies for ensuring compliance security in an industrial enterprise are presented in Table 2.

For the first time in our country, the term “compliance risk” was defined in Article 1, Clause 12 of the Resolution of the Board of the National Bank of Ukraine dated March 28, 2007 No. 98 “Guidelines for Improving Corporate Governance in Ukrainian Banks”: compliance risk is the risk of legal sanctions, financial losses or loss of reputation due to the organization’s failure to comply with the requirements of Ukrainian legislation, regulations, internal regulations and rules, as well as the standards of organizations, apply to its activities.

Table 2 - Functions, principles and policies for ensuring compliance security of an industrial enterprise

Compliance safety of an industrial enterprise		
<i>Functions</i>	<i>The principles</i>	<i>Politicians</i>
Anti-Corruption and Ethics	Responsibility of top management	Policy Code of Corrupt Ethics
Assessment of enterprise compliance risks	Responsibility of the executive bodies on compliance risks	Anti-corruption policy of the enterprise
Advising staff on ethical business compliance issues	High official status of compliance service and its head	Anti-Fraud Policy
Staff training on compliance issues	Independence enterprise compliance function	Anti-Money Laundering Policy
Administration hotline (primary verification of received messages)	Full access to information and staff	The policy of accepting and giving gifts
Investigation of compliance violations (corruption, business ethics, conflict of interest, reputation)	Availability of resources for compliance services, including outsourcing	Ethics Violation Policy
Industrial safety, labor protection and ecology	Staff professionalism	Counter Terrorist Policy
Antitrust compliance	Compliance - the overall task of the team.	Policy that governs a conflict of interest
Protection of personal and confidential data	Identification, assessment and analysis of compliance risk	Securities purchase control policy
Respect for human rights in the workplace	Monitoring, verification and reporting	Privacy Policy
trade sanctions	Interaction with internal audit	The principle of the system compliance program
Countering Money Laundering and the Financing of Terrorism	The complex of specific duties compliance function	“Know Your Customer” Policy

Preventing insider trading and market manipulation	Foreign economic integration	Regulatory policy
Compliance in the field of product marketing (for example, providing complete and honest information about the company's products)	You should not make a fetish of compliance (compliance for business, but not business for compliance)	The policy of sharing access to information - the policy of the «Chinese Walls»

*Source:* authoring

Failure to anticipate the impact of inappropriate actions of employees of the organization can lead to negative public response and damage the reputation of the organization, even if the requirements of the legislation of Ukraine were not initiated [4].

The methodological essence of compliance safety provides for the identification of the scope of compliance risks in ensuring compliance with safety of an industrial enterprise:

- the risks of criminal sanctions by the state for violating the law;
- risks of financial losses of an enterprise due to violation of mandatory business rules and obligations of an enterprise;
- risks of deterioration of the business reputation of the enterprise (decrease in the value of goodwill)
- risks of personal liability of top management of the company (members of the board of directors and executive management of the company);
- the risks of crime within the enterprise, crimes against the enterprise and the involvement of the enterprise in criminal activity.

The introduction of the compliance safety program at Ukrainian industrial enterprises opens up new opportunities for business development, eliminating or reducing risks, and improving the quality of corporate governance in general. Table 3 summarizes the main advantages of the compliance safety program at industrial enterprises and the implications for enterprises that implement and do not use the basic provisions of compliance safety.

Table 3 - Main scopes of the compliance safety program at an industrial enterprise

Spheres of influence of the compliance safety program in an industrial enterprise		
Anti-Money Laundering and Currency Control	Accounting, reporting, presentation	Legislation on the securities market and derivative financial instruments
Antitrust laws	financial statements	State secrets, personal data
Customs legislation	tax law	Corporate Law and Enterprise Law
Banking legislation	insurance legislation	Consumer rights Protection
Labor law	Listing & Exchange Requirements	Professional Association Rules
environmental regulations	Anti-fraud	Safety rules

*Source:* summarized by the author using [1, 6]

Conclusions and recommendations. The introduction of the term “compliance security” into scientific use makes it possible to consider the problem of ensuring the economic security of an industrial enterprise in a completely different way. The economic security of the real sector of the economy should be ensured not only by the efficiency of the production and commercial activities, but also by the attitude of the production system, top management and all personnel of the enterprise to indicators of corruption, fraud, money laundering, violation of corporate ethics, antitrust, tax legislation, etc. . . Along with the protective measures carried out by the state, the enterprise must protect itself on the basis of active resistance to violations of laws and regulations at all levels. All this essentially methodologically expands both the term “economic security of an enterprise” and considerably enriches the theoretical and methodological tools used in conducting various kinds of measures aimed at ensuring the economic security of an industrial enterprise.

Ensuring the economic security of the real sector of the economy is not the prerogative of any one state or corporate department or service. It should be supported by the entire system of state bodies, all links and structures of management of an industrial enterprise. Prospects for further research in the field of compliance security of the real economy are associated with these tasks. There is an urgent need to develop theoretical and methodological guidelines for determining and evaluating compliance risks, determining the level of corruption and fraud in an enterprise, the level of violations of antitrust and tax legislation,

and developing a system of ongoing monitoring of both the violations themselves and the system of punishments for such actions.

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## ***ENSURING MECHANISM OF UKRAINE'S ECONOMIC SECURITY***

**Abstract.** *The situation in the economy of Ukraine nowadays requires a clear definition of the economic security strategy, since the majority of economic reforms are of fragmentary and non-systemic character. The economic security mechanism of Ukraine should ensure implementation of a number of important functions, such as protective, regulatory, preventive, innovative and social. Two options have been worked out. The first option is based on the formation of a modernized mechanism of state economic regulation as well as existing market*